

# TXT E-SOLUTIONS OUTPERFORM

Price (Eu): **12.52**

Target Price (Eu): **13.40**

SECTOR: *Industrials*

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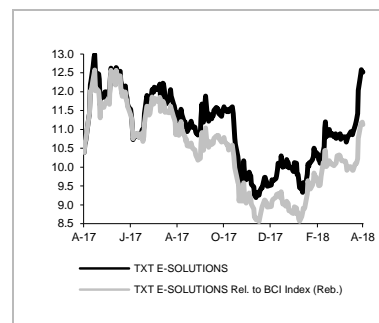
## M&A Opportunities Should Materialise In The Next Few Quarters

- Positive start to the year, revenues should accelerate in 2H18.** According to management, 1Q18 revenues amounted to Eu9.4mn, up 4.5% YoY due to the positive contribution of the Aerospace & Aviation business, while quarterly EBITDA is expected to have stayed fairly flat YoY. Net cash as at 31<sup>st</sup> March 2018 stood at Eu88.0mn. 1Q18 results will be approved on 10<sup>th</sup> May 2018. We expect FY18 top line growth to be back-end loaded because some important contracts will start to take full effect as of 2H18.
- New estimates more cautious on 2018 but point to 28% 3Y net profit CAGR.** We expect an 8-10% CAGR for Aerospace & Aviation and a 5% CAGR for Banking & Finance, therefore we are slightly upgrading our top line expectations (+1.9%/+1.2%) but taking a more cautious view on the 2018 EBIT margin because we assume some additional costs related to the ramp up new international contracts, now expected to deliver full profitability in 2019-2020, and because, after the disposal of TXT Retail, corporate costs now have a greater impact relatively speaking. All in all, we are cutting our EPS for 2018 but slightly raising it for 2019. In the three years to 2020 we expect revenues to post a 9% CAGR and restated net profit a 28% CAGR.
- New shareholder Enrico Magni appointed to the board.** On 21<sup>st</sup> February 2018 E-Business Consulting sold its 25.62% stake in TXT to Laserline S.p.A., a company entirely owned by Enrico Magni. The deal went through for Eu35mn, corresponding to around Eu10.5 per TXT share. On 19<sup>th</sup> April, 2018, the AGM appointed Enrico Magni and Valentina Cogliati, to the Board of Directors, the latter as an independent Director, replacing Teresa Cristiana Naddeo and Andrea Lanciani. These appointments last until approval of the 2019 financial statements. Enrico Magni is going to help TXT scout for M&A opportunities and is likely to take on some executive responsibilities following the next Board meeting.
- M&A opportunities should materialise in the next few quarters.** Chairman Alvisè Braga Illa is expecting acquisitions to be evaluated soon. According to the Chairman, shareholders agree about investing group liquidity (about Eu76mn after dividend distribution) and treasury shares (Eu16mn at current market price) in acquisitions. The Company is evaluating opportunities both in the Aerospace and in the Banking & Finance industry. At the same time, the group's reference market in the Aerospace & Automotive industry remains highly fragmented, with scope for consolidation.
- OUTPERFORM confirmed; target from Eu11.5 to Eu13.4.** After its strong YTD performance the stock looks quite expensive on multiples, but we confirm our positive view as we see increasing visibility on solid organic growth (3Y CAGRs of 9% for the top line and 28% for the bottom line) and on M&A opportunities that could rebalance the financial structure. The upside to our current valuation should become clear as soon as a significant M&A deal is announced. Our target is ex-dividend distribution (payment on 9<sup>th</sup> May).

Next event:

1Q18 Results out 10 May 2018

TXT E-SOLUTIONS - 12m Performance



**RATING: Unchanged**

**TARGET PRICE (Eu): from 11.50 to 13.40**

Change in EPS est: 2018E 2019E  
-13.3% 1.7%

### STOCK DATA

Reuters code: TXTS.MI  
Bloomberg code: TXT IM

Performance	1m	3m	12m
Absolute	15.5%	23.7%	20.5%
Relative	8.4%	24.3%	8.0%
12 months H/L:	12.99/9.20		

### SHAREHOLDER DATA

No. of Ord. shares (mn):	13
Total No. of shares (mn):	13
Mkt Cap Ord (Eu mn):	163
Total Mkt Cap (Eu mn):	163
Mkt Float - ord (Eu mn):	59
Mkt Float (in %):	36.4%
Main shareholder:	
Enrico Magni (Laserline)	25.6%

### BALANCE SHEET DATA 2018

Book value (Eu mn):	90
BVPS (Eu):	6.92
P/BV:	1.8
Net Financial Position (Eu mn):	76
Enterprise value (Eu mn):	71

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Key Figures	2016A	2017A	2018E	2019E	2020E
Sales (Eu mn)	33	36	39	43	47
Ebitda (Eu mn)	4	3	4	5	6
Net profit (Eu mn)	6	69	2	3	4
EPS - New (Eu)	0.216	0.149	0.153	0.217	0.311
EPS - Old (Eu)	0.477	6.334	0.177	0.213	
DPS (Eu)	0.300	1.000	0.123	0.249	0.000

Ratios & Multiples	2016A	2017A	2018E	2019E	2020E
P/E	57.9	84.0	81.6	57.8	40.2
Div. Yield	2.4%	8.0%	1.0%	2.0%	0.0%
EV/Ebitda	37.6	17.1	17.3	14.1	11.0
ROCE	11.5%	12.9%	17.8%	21.4%	26.9%

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**TXT E-SOLUTIONS - KEY FIGURES**

		2016A	2017A	2018E	2019E	2020E
	Fiscal year end	12/12/2016	12/12/2017	12/12/2018	12/12/2019	12/12/2020
<b>PROFIT &amp; LOSS (Eu mn)</b>	Sales	33	36	39	43	47
	EBITDA	4	3	4	5	6
	EBIT	3	3	2	3	5
	Financial income (charges)	0	(0)	0	0	0
	Associates & Others	0	0	0	0	0
	Pre-tax profit (Loss)	3	2	2	3	5
	Taxes	(1)	(1)	(1)	(1)	(1)
	Tax rate (%)	20.8%	28.8%	25.0%	25.0%	25.0%
	Minorities & discontinue activities	3	67	0	0	0
	Net profit	6	69	2	3	4
	Total extraordinary items	3	67	0	0	0
	Ebitda excl. extraordinary items	4	3	4	5	6
	Ebit excl. extraordinary items	3	3	2	3	5
Net profit restated	3	2	2	3	4	
<b>PER SHARE DATA (Eu)</b>	Total shares out (mn) - average fd	13	13	13	13	13
	EPS stated fd	0.477	5.840	0.153	0.217	0.311
	EPS restated fd	0.216	0.149	0.153	0.217	0.311
	BVPS fd	2.636	7.680	6.916	7.001	7.126
	Dividend per share (ord)	0.300	1.000	0.123	0.249	0.000
	Dividend per share (sav)	0.000	0.000	0.000	0.000	0.000
	Dividend pay out ratio (%)	62.9%	17.1%	80.0%	80.0%	80.0%
	<b>CASH FLOW (Eu mn)</b>	Gross cash flow	2	(1)	4	4
Change in NWC		6	1	(2)	(2)	(2)
Capital expenditure		(1)	(1)	(1)	(1)	(1)
Other cash items		(2)	4	0	0	0
Free cash flow (FCF)		6	3	1	2	3
Acquisitions, divestments & others		(5)	82	0	0	0
Dividend		(3)	(3)	(12)	(1)	(2)
Equity financing/Buy-back		(1)	(0)	(1)	0	0
Change in Net Financial Position	(3)	82	(12)	0	1	
<b>BALANCE SHEET (Eu mn)</b>	Total fixed assets	24	9	9	9	9
	Net working capital	7	6	8	10	12
	Long term liabilities	(3)	(3)	(3)	(3)	(3)
	Net capital employed	29	13	15	16	18
	Net financial position	5	87	76	76	77
	Group equity	34	100	90	91	93
	Minorities	0	0	0	0	0
Net equity	34	100	90	91	93	
<b>ENTERPRISE VALUE (Eu mn)</b>	Average mkt cap - current	163	163	163	163	163
	Adjustments (associate & minorities)	16	16	16	16	16
	Net financial position	5	87	76	76	77
	Enterprise value	141	59	71	70	70
<b>RATIOS(%)</b>	EBITDA margin*	11.4%	9.7%	10.5%	11.7%	13.6%
	EBIT margin*	9.5%	7.5%	6.2%	7.7%	10.0%
	Gearing - Debt/equity	-15.7%	-87.4%	-84.3%	-83.7%	-82.8%
	Interest cover on EBIT	nm	12.8	nm	nm	nm
	Debt/Ebitda	nm	nm	nm	nm	nm
	ROCE*	11.5%	12.9%	17.8%	21.4%	26.9%
	ROE*	16.4%	nm	1.9%	2.8%	4.0%
	EV/CE	5.2	2.9	5.2	4.6	4.0
	EV/Sales	4.3	1.7	1.8	1.7	1.5
	EV/Ebit	nm	22.2	29.5	21.4	14.9
Free Cash Flow Yield	4.3%	2.2%	0.6%	1.2%	1.8%	
<b>GROWTH RATES (%)</b>	Sales		8.4%	8.7%	9.3%	9.9%
	EBITDA*	-36.5%	-7.8%	18.3%	21.6%	27.7%
	EBIT*	-34.7%	-14.7%	-10.1%	37.0%	42.0%
	Net profit	43.0%	1134.0%	-97.4%	41.1%	43.7%
	EPS restated	-34.8%	-31.1%	3.0%	41.1%	43.7%

\* Excluding extraordinary items

Source: Intermonte SIM estimates

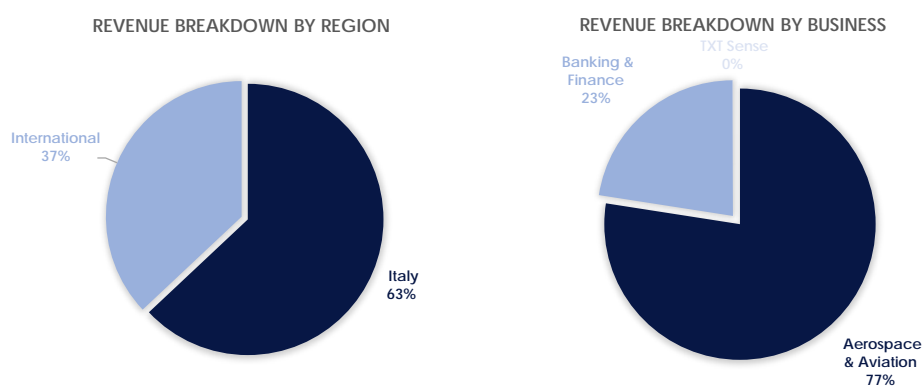
## 2017 Results and Management Strategy

On 2<sup>nd</sup> October 2017, TXT signed a definitive agreement for the sale of TXT Retail to US company Aptos. TXT was paid Eu85mn in cash, valuing the business unit at 2.3x EV/sales and 19x EV/EBITDA. TXT also cashed-in a Eu3.2mn price adjustment based on net working capital. In addition, as part of the agreement, in the event of a listing (IPO) of Aptos, TXT will have the right to exercise an option to purchase up to a maximum of 10% of the shares involved in the listing, at the IPO price.

After the sale, TXT e-solutions focused on the development of the TXT Next division, mainly in software for the aeronautics and transport systems sectors. The new shareholder Enrico Magni could contribute to accelerate the development of the company bringing new M&A opportunities also in the Banking & Finance industry.

In FY17 group turnover amounted to Eu35.9mn, up 8.4% YoY thanks to strong growth in International activities, whose contribution went from 30% to 37% of total revenues. Aerospace & Aviation customers represented 77% of total revenues and Banking & Finance the remaining 23%. During the year TXT established a new business unit TXT Sense to cross-sell group solutions (virtual and augmented reality) to new clients in the industrial sector.

### 2017 Revenue Breakdown



Source: Company data and Intermonte SIM estimates

In terms of profitability, 2017 EBIT amounted to Eu2.7mn, down from the Eu3.1mn posted in 2016, mainly because of higher R&D spending (+18.9% YoY) and higher marketing costs in order to reinforce the international sales team (+35.7% YoY). G&A costs, Eu4.5mn in absolute terms, remained unchanged compared to FY16. At bottom line, net profit benefited from the Eu70.6mn non/recurring income related to the disposal of TXT Retail, while net profit from continuing operations amounted to Eu1.75mn.

### 2017 Income Statement

(Eu mn)	2016A	2017A
<b>Revenues</b>	<b>33.1</b>	<b>35.9</b>
	<i>YoY growth</i>	8.4%
<b>EBITDA pre stock grant</b>	<b>3.8</b>	<b>3.5</b>
<b>EBITDA IFRS</b>	<b>3.8</b>	<b>3.5</b>
	<i>YoY growth</i>	-7.8%
	<i>EBITDA margin</i>	9.7%
Depreciation and amortization	(0.6)	(0.8)
	<i>on revenues</i>	2.2%
<b>EBIT IFRS</b>	<b>3.1</b>	<b>2.7</b>
	<i>YoY growth</i>	-14.7%
	<i>EBIT margin</i>	7.5%
Financial income and charges	<b>0.0</b>	<b>(0.2)</b>
<b>Pre-tax profit</b>	<b>3.2</b>	<b>2.5</b>
Income taxes	(0.7)	(0.7)
	<i>tax rate</i>	-28.8%
Profit from discontinued operations	<b>3.0</b>	<b>66.8</b>
<b>Net profit</b>	<b>5.6</b>	<b>68.6</b>
	<i>YoY growth</i>	1134.0%
	<i>Net margin</i>	191.2%

Source: Company data and Intermonte SIM estimates

The AGM approved the distribution of an extraordinary dividend of Eu1.00 per share, or Eu11.7mn in total. This still leaves more than Eu76mn of M&A firepower.

The Aeronautics sector is in the process of rapid consolidation and TXT is well positioned to seize new contracts and potential acquisitions, having among its main and most loyal customers the major players in the ongoing consolidation affecting the sector, including Leonardo, Airbus, Boeing, Pilatus, Lufthansa, Safran, Rolls-Royce and Embraer.

In 2017 TXT further consolidated its presence with all existing customers and acquired new important clients (including Finnair, Saab and Ferchau), confirming the strategic role of its solutions in the training and simulation processes, and operational support for aeronautical manufacturers and airlines. From the point of view of innovation, TXT's year was characterised by the launch of two new products, Pacelab FPO Cloud and Pacelab WEAVR. Pacelab FPO Cloud is aimed at airlines and allows pilots to optimise their route during the flight to reduce fuel consumption and pollution and avoid turbulence. A pilot project is underway with one of the main North American airlines. Pacelab WEAVR is an innovative platform that facilitates the development and use of applications for the training of pilots, crews and maintenance technicians, tailored for the needs of both aircraft and engine manufacturers and training schools in the aeronautics sector. WEAVR consolidates TXT's experience in the sector, gained over the years through the creation of numerous projects and complex simulators, and is realised using innovative Virtual Reality and Augmented Reality techniques.

As for 2018-2020 we expect the following developments:

**Organic Growth**

- Aerospace & Aviation: 8-10% per annum, with focus on International Growth
- Banking & Finance: 5+% per annum, 100% Italy
- R&D and Marketing & Sales costs self-financed
- Constant equilibrium across growth & profit
- EBITDA Margin: 12% Global Target

**Inorganic Growth – Aerospace & Aviation model target**

- Mid-sized (Eu5-20mn revenues) and profitable
- International Profile
- Solid customer base, strong team, committed management and long history in the industry
- Highly specialised knowledge sustained by innovation capability and differentiating software assets
- Complementary, with the attributes to broaden one/more of: the offering, the geographical presence, the customer base, the penetration within existing accounts and/or domains
- Fairly valued

## Estimates

We are changing our estimates to take into account the most recent indications about the different business units (Aerospace & Aviation 8-10% CAGR, Banking & Finance 5% CAGR) and the implementation of IFRS16. The change in accounting has a neutral impact on EBIT but a positive impact on EBITDA, as it moves leasing and rental costs from OPEX to D&A. Apart from that, we are slightly upgrading our top line expectations (+1.9%/+1.2%) but taking a more cautious view on the 2018 EBIT margin because we assume some additional costs related to the ramp-up of new international contracts, expected to deliver full profitability in 2019-2020 and because, after the disposal of TXT Retail, corporate costs now have a greater impact in relative terms. All in all, we are cutting our EPS forecast for 2018, but slightly raising it for 2019.

## Change in estimates

(Eu mn)	NEW Estimates			Old Estimates			Change		
	2017A	2018E	2019E	2017E	2018E	2019E	2017A	2018E	2019E
Revenues	35.9	39.0	42.6	35.2	38.5	42.0	1.9%	1.2%	1.4%
EBITDA pre stock grant	3.5	4.3	5.2	3.5	3.8	4.4	1.0%	13.2%	17.9%
EBITDA	3.5	4.1	5.0	3.4	3.6	4.1	2.0%	13.9%	21.7%
EBIT	2.7	2.4	3.3	2.7	2.8	3.2	-1.0%	-14.2%	2.8%
PBT	2.5	2.4	3.4	2.6	2.8	3.3	-5.2%	-14.2%	2.7%
Net profit	68.6	1.8	2.5	73.8	2.1	2.5	-7.1%	-13.3%	1.7%
Net cash	87.3	75.8	76.2	88.4	88.4	88.7	-1.2%	-14.2%	-14.1%

Source: Company data and Intermonte SIM estimates

## Revenue and EBITDA breakdown

(Eu mn)	2017A	2018E	2019E	2020E
<b>Aerospace &amp; Aviation</b>	<b>27.8</b>	<b>30.0</b>	<b>32.7</b>	<b>36.0</b>
YoY growth		8.0%	9.0%	10.0%
on total revenues	77.5%	77.0%	76.8%	76.8%
<b>Banking &amp; Finance</b>	<b>8.1</b>	<b>8.5</b>	<b>8.9</b>	<b>9.3</b>
YoY growth		5.0%	5.0%	5.0%
on total revenues	22.5%	21.7%	20.9%	20.0%
<b>TXT Sense</b>	<b>0.0</b>	<b>0.5</b>	<b>1.0</b>	<b>1.5</b>
YoY growth		4066.7%	100.0%	50.0%
on total revenues	0.0%	1.3%	2.3%	3.2%
<b>Total revenues</b>	<b>35.9</b>	<b>39.0</b>	<b>42.6</b>	<b>46.8</b>
YoY growth	8.4%	8.7%	9.3%	9.9%
<b>TXT - EBITDA breakdown</b>				
(Eu mn)	2017A	2018E	2019E	2020E
<b>Aerospace &amp; Aviation</b>	<b>3.1</b>	<b>3.5</b>	<b>4.2</b>	<b>5.4</b>
YoY growth		15.9%	20.1%	26.9%
margin	11.0%	11.8%	13.0%	15.0%
<b>Banking &amp; Finance</b>	<b>0.6</b>	<b>0.8</b>	<b>0.9</b>	<b>1.0</b>
YoY growth		18.1%	16.7%	15.5%
margin	8.0%	9.0%	10.0%	11.0%
<b>TXT Sense</b>	<b>(0.2)</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>
margin	-7.3%	0.0%	5.0%	10.0%
<b>Total EBITDA</b>	<b>3.5</b>	<b>4.3</b>	<b>5.2</b>	<b>6.6</b>
YoY growth		21.7%	20.6%	26.6%
margin	9.9%	11.0%	12.2%	14.0%

Source: Company data and Intermonte SIM estimates

**P&L**

(Eu mn)	2016A	2017A	2018E	2019E	2020E
<b>Revenues</b>	<b>33.1</b>	<b>35.9</b>	<b>39.0</b>	<b>42.6</b>	<b>46.8</b>
<i>YoY growth</i>		8.4%	8.7%	9.3%	9.9%
<b>EBITDA pre stock grant</b>	<b>3.8</b>	<b>3.5</b>	<b>4.3</b>	<b>5.2</b>	<b>6.6</b>
<b>EBITDA IFRS</b>	<b>3.8</b>	<b>3.5</b>	<b>4.1</b>	<b>5.0</b>	<b>6.4</b>
<i>YoY growth</i>		-7.8%	18.3%	21.6%	27.7%
<i>EBITDA margin</i>	11.4%	9.7%	10.5%	11.7%	13.6%
Depreciation and amortization	(0.6)	(0.8)	(1.7)	(1.7)	(1.7)
<i>on revenues</i>	1.9%	2.2%	4.4%	4.0%	3.6%
<b>EBIT IFRS</b>	<b>3.1</b>	<b>2.7</b>	<b>2.4</b>	<b>3.3</b>	<b>4.7</b>
<i>YoY growth</i>	-34.7%	-14.7%	-10.1%	37.0%	42.0%
<i>EBIT margin</i>	9.5%	7.5%	6.2%	7.7%	10.0%
Financial income and charges	<b>0.0</b>	<b>(0.2)</b>	<b>0.0</b>	<b>0.1</b>	<b>0.2</b>
<b>Pre-tax profit</b>	<b>3.2</b>	<b>2.5</b>	<b>2.4</b>	<b>3.4</b>	<b>4.9</b>
Income taxes	(0.7)	(0.7)	(0.6)	(0.8)	(1.2)
<i>tax rate</i>	<b>-20.8%</b>	<b>-28.8%</b>	<b>-25.0%</b>	<b>-25.0%</b>	<b>-25.0%</b>
Profit from discontinued operations	<b>3.0</b>	<b>66.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net profit</b>	<b>5.6</b>	<b>68.6</b>	<b>1.8</b>	<b>2.5</b>	<b>3.7</b>
<i>YoY growth</i>	43.0%	1134.0%	-97.4%	41.1%	43.7%
<i>Net margin</i>	16.8%	191.2%	4.6%	6.0%	7.8%

Source: Company data and Intermonte SIM estimates

In terms of cashflow, our model factors in the Eu1 DPS that will be paid on 9<sup>th</sup> May 2018, as well as an 80% dividend payout policy for the years to come (management did not disclose the official dividend policy, which may vary according to the execution of the M&A strategy).

**Cash Flow Statement**

(Eu mn)	2016A	2017A	2018E	2019E	2020E
Net Income	5.6	68.6	1.8	2.5	3.7
Depreciation and amortization	0.6	0.8	1.7	1.7	1.7
Change in Working Capital	6.3	1.0	(1.8)	(1.6)	(1.9)
Change in funds	(1.3)	0.0	0.0	0.0	0.0
Other	(2.5)	(70.2)	0.0	0.0	0.0
<b>Operating CF</b>	<b>8.8</b>	<b>0.2</b>	<b>1.7</b>	<b>2.6</b>	<b>3.5</b>
Net CAPEX (Tangible + Intangible)	(0.7)	(0.7)	(0.8)	(0.8)	(0.9)
Disposals	0.0	82.3	0.0	0.0	0.0
Acquisitions	(5.4)	0.0	0.0	0.0	0.0
Dividends	(2.9)	(3.5)	(11.7)	(1.4)	(2.0)
Net changes in equity	(0.8)	(0.0)	(0.7)	0.0	0.0
Other	(1.7)	3.7	0.0	0.0	0.0
<b>Cash Flow</b>	<b>(2.9)</b>	<b>82.0</b>	<b>(11.5)</b>	<b>0.4</b>	<b>0.6</b>
<b>NFP at the beg. of the year: Cash/(Debt)</b>	<b>8.3</b>	<b>5.4</b>	<b>87.3</b>	<b>75.8</b>	<b>76.2</b>
Cash Flow: Cash/(Debt)	(2.9)	82.0	(11.5)	0.4	0.6
<b>NFP at year end: Cash/(Debt)</b>	<b>5.4</b>	<b>87.3</b>	<b>75.8</b>	<b>76.2</b>	<b>76.8</b>

Source: Company data and Intermonte SIM estimates

**Balance Sheet**

(Eu mn)	2016A	2017A	2018E	2019E	2020E
Tangible assets	0.8	0.8	1.3	1.8	2.3
Intangible assets	3.5	2.0	1.6	1.3	1.0
Goodwill	17.8	5.4	5.4	5.4	5.4
Financial assets	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
Other non current assets	1.7	0.7	0.7	0.7	0.7
<b>Fixed Assets</b>	<b>24.2</b>	<b>8.9</b>	<b>9.0</b>	<b>9.2</b>	<b>9.4</b>
Inventory	2.8	2.5	2.7	3.0	3.3
Trade Receivables	14.0	14.7	16.0	17.4	19.2
Other current assets	2.0	2.5	2.8	2.8	2.8
Trade Payables	(1.1)	(1.3)	(1.3)	(1.4)	(1.5)
Other current liabilities	(10.3)	(12.1)	(12.1)	(12.1)	(12.1)
<b>Net Working Capital</b>	<b>7.3</b>	<b>6.3</b>	<b>8.1</b>	<b>9.8</b>	<b>11.7</b>
<i>growth</i>	-33.8%	-14.0%	29.0%	20.1%	19.5%
<i>on revenues</i>	22.2%	17.6%	20.9%	22.9%	24.9%
Severance Indemnities	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Other long-term liabilities	0.0	0.0	0.0	0.0	0.0
<b>Net Capital Employed</b>	<b>28.9</b>	<b>12.6</b>	<b>14.5</b>	<b>16.3</b>	<b>18.4</b>
Share capital	6.5	6.5	6.5	6.5	6.5
Reserves	14.1	(40.2)	91.6	80.9	80.9
Retained earnings	8.1	65.1	(9.9)	1.1	1.6
Profit for the year	5.6	68.6	1.8	2.5	3.7
<b>Total equity</b>	<b>34.3</b>	<b>99.9</b>	<b>90.0</b>	<b>91.1</b>	<b>92.7</b>
<b>Net Cash (Debt)</b>	<b>5.4</b>	<b>87.3</b>	<b>75.8</b>	<b>76.2</b>	<b>76.8</b>
Gearing %	-19%	-696%	-537%	-513%	-482%

Source: Company data and Intermonte SIM estimates

**Indications on 1Q18**

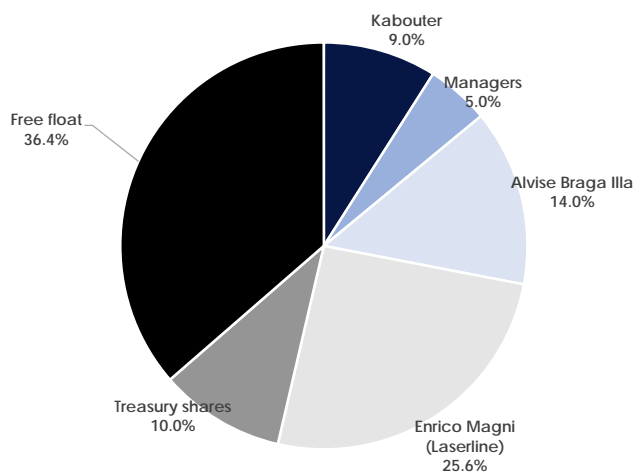
According to management, 1Q18 revenues amounted to Eu9.4mn, up +4.5% YoY, due to the positive contribution of the Aerospace & Aviation business. Software revenues from licences, subscriptions and maintenance were Eu1.1mn, 12% of total revenues. EBITDA is expected to have remained broadly flat YoY. R&D and international commercial investments grew further and have been completely expensed to P&L. The net financial position as at 31<sup>st</sup> March 2018 was positive to the tune of Eu88.0mn. The report on operations for the quarter will be submitted for approval by the Company's Board of Directors on 10<sup>th</sup> May 2018.

### Shareholding Structure

We remind that on 21st February 2018, E-Business Consulting S.A. announced an agreement with Laserline S.p.A., a company fully controlled by Enrico Magni, for the sale of its 25.62% stake in TXT. Apart from this transaction, the remaining shareholders have remained broadly stable in recent years.

### Shareholding structure

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Source: Company data



## Valuation

Net cash in our valuation is adjusted to take into account the already announced dividend distribution.

DCF	
SUM PV(FCF)	10.8
PV TV	71.6
<b>Enterprise Value</b>	<b>82.4</b>
-/+ Net debt/(cash) @ YE17	(75.6)
Treasury shares	(16.2)
<b>Equity value</b>	<b>174.3</b>
Shares outstanding (mn)	13.0
<b>Fair value per share (Eu)</b>	<b>13.4</b>
Actual share price	12.5
<b>Upside/(Downside)</b>	<b>7.0%</b>

WACC	7.5%
Terminal growth rate	3.0%

TV/EV	86.9%
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## TXT – Software Industry Peer Group

	Mkt cap (EUR mn)	EV/Sales			EV/EBITDA			EV/EBIT			PE			Dividend Yield %		
		2017A	2018E	2019E	2017A	2018E	2019E	2017A	2018E	2019E	2017A	2018E	2019E	2017A	2018E	2019E
TXT e-solutions S.p.A. @ our TP	2.43 x	2.53 x	2.30 x	24.6 x	22.9 x	18.9 x	32.5 x	41.0 x	29.8 x	99.6 x	96.8 x	68.6 x	8.0%	1.3%	1.4%	
TXT e-solutions S.p.A. @ mkt price	163	2.11 x	2.21 x	2.00 x	21.4 x	20.1 x	16.4 x	28.3 x	35.9 x	25.8 x	93.1 x	90.4 x	64.1 x	8.0%	1.3%	1.4%
American Software, Inc. Class A	305	2.78 x	2.58 x		15.4 x	14.0 x		19.5 x	17.6 x		29.4 x	28.2 x	26.7 x			
ATOSS Software AG	353	6.06 x	5.33 x	4.71 x	22.2 x	19.0 x	16.6 x	23.5 x	20.1 x	17.5 x	37.9 x	32.4 x	28.7 x	1.3%	1.5%	1.7%
Capgemini SE	18,021	1.50 x	1.45 x	1.33 x	10.9 x	10.3 x	9.2 x	16.3 x	12.5 x	11.1 x	17.2 x	17.8 x	16.2 x	1.5%	1.7%	1.9%
Computacenter Plc	1,610	0.32 x	0.33 x	0.31 x	9.3 x	9.7 x	8.9 x	11.4 x	12.2 x	11.1 x	18.8 x	17.9 x	16.9 x	2.1%	2.1%	2.2%
Descartes Systems Group Inc.	1,872	9.50 x	8.17 x	7.27 x	27.9 x	23.7 x	20.2 x	58.9 x	45.0 x	35.6 x	84.3 x	61.2 x	48.2 x			
Dev oteam SA	704	1.21 x	1.01 x	0.87 x	11.3 x	9.0 x	7.6 x	13.2 x	9.8 x	8.0 x	29.5 x	22.4 x	18.9 x	1.1%	1.3%	1.5%
Descartes Systems Group Inc.	1,872	9.50 x	8.17 x	7.27 x	27.9 x	23.7 x	20.2 x	58.9 x	45.0 x	35.6 x	84.3 x	61.2 x	48.2 x			
Manhattan Associates, Inc.	2,388	4.65 x	4.82 x	4.74 x	12.9 x	18.7 x	20.1 x	13.5 x	19.9 x	21.5 x	23.1 x	28.7 x	31.8 x			
Oracle Corporation	154,894	4.48 x	4.25 x	4.32 x	9.6 x	9.0 x	9.1 x	10.2 x	9.5 x	9.6 x	14.9 x	13.7 x	12.7 x	1.6%	1.6%	1.7%
Reply S.p.A.	1,915	2.10 x	1.85 x	1.65 x	15.1 x	12.9 x	11.5 x	16.7 x	14.2 x	12.7 x	24.6 x	21.2 x	19.2 x	0.7%	0.8%	0.8%
SAP SE	110,971	4.81 x	4.60 x	4.18 x	15.8 x	14.4 x	12.7 x	16.7 x	15.7 x	13.9 x	20.3 x	21.0 x	18.8 x	1.5%	1.6%	1.8%
Sopra Steria Group SA	3,522	1.05 x	0.98 x	0.90 x	11.8 x	10.0 x	8.8 x	12.6 x	11.5 x	9.8 x	17.2 x	16.0 x	13.9 x	1.4%	1.6%	1.7%
Assystem SA	447	1.08 x	1.07 x	1.00 x	16.6 x	15.0 x	12.6 x	18.2 x	17.2 x	15.1 x	21.2 x	13.7 x	12.0 x	3.5%	3.5%	3.5%
<b>Median</b>		<b>2.78 x</b>	<b>2.58 x</b>	<b>2.92 x</b>	<b>15.1 x</b>	<b>14.0 x</b>	<b>12.1 x</b>	<b>16.7 x</b>	<b>15.7 x</b>	<b>13.3 x</b>	<b>23.1 x</b>	<b>21.2 x</b>	<b>18.9 x</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.7%</b>
Premium/(Discount) vs median		-24.4%	-14.6%	-30.8%	41.4%	61.9%	47.5%	41.6%	111.2%	77.8%	184.6%	247.4%	188.6%	447.8%	-19.4%	-22.2%

Source: IntermonTE SIM and Factset consensus estimates

**Peer Group - Absolute Performances**

Stock	Price	Ccy	Mkt cap	1M	3M	6M	YTD	1Y	2Y
<b>TXT E-SOLUTIONS</b>	<b>12.52</b>	<b>EUR</b>	<b>163</b>	<b>15.5%</b>	<b>23.7%</b>	<b>7.9%</b>	<b>29.9%</b>	<b>20.5%</b>	<b>66.2%</b>
AMERICAN SOFTWARE	13.10	USD	398	3.5%	1.8%	6.5%	12.6%	17.9%	44.1%
ATOSS SOFTWARE	88.80	EUR	353	10.7%	2.1%	19.2%	20.0%	29.6%	26.1%
CAPGEMINI	106.75	EUR	17,947	4.8%	0.3%	3.8%	7.9%	15.1%	35.8%
COMPUTACENTER	12.26	GBP	1,399	8.3%	6.6%	22.0%	6.3%	52.5%	46.2%
DESCARTES SYSTEMS	38.05	CAD	2,919	1.1%	6.4%	2.0%	6.5%	20.9%	58.7%
DEVOTEAM	84.50	EUR	674	-4.9%	5.8%	7.2%	12.9%	34.1%	103.8%
MANHATTAN ASSOCIATE	43.29	USD	2,893	4.2%	-19.7%	-5.3%	-12.6%	-7.9%	-33.6%
ORACLE	45.96	USD	187,623	-1.1%	-12.9%	-8.4%	-2.8%	2.8%	13.1%
REPLY	51.20	EUR	1,915	8.5%	0.2%	13.8%	10.9%	33.9%	67.2%
SAP	90.33	EUR	107,800	8.9%	-1.5%	-7.1%	-3.3%	-2.3%	28.6%
SOPRA GROUP	171.50	EUR	3,467	5.3%	4.6%	7.9%	10.0%	23.5%	72.6%
SQS SOFTWARE	---	EUR	---	---	---	---	---	---	---
<b>Mean performance</b>				<b>5.4%</b>	<b>1.4%</b>	<b>5.8%</b>	<b>8.2%</b>	<b>20.1%</b>	<b>44.1%</b>
<b>Italy FTSE Mib</b>	24,039.6	EUR		9.2%	0.8%	5.4%	10.0%	15.4%	28.8%

Source: FactSet

**Peer Group - Multiple Comparison**

Stock	Price	Ccy	Mkt cap	EV/Sales	EV/Sales	EV/Ebitda	EV/Ebitda	EV/Ebit	EV/Ebit	P/E	P/E	Div Yield	Div Yield
				2018	2019	2018	2019	2018	2019	2018	2019	2018	2019
<b>TXT E-SOLUTIONS</b>	<b>12.52</b>	<b>EUR</b>	<b>163</b>	<b>1.8</b>	<b>1.7</b>	<b>17.3</b>	<b>14.1</b>	<b>29.5</b>	<b>21.4</b>	<b>81.6</b>	<b>57.8</b>	<b>1.0%</b>	<b>2.0%</b>
AMERICAN SOFTWARE	13.10	USD	398	2.6		14.0		17.6		28.2	26.7		
ATOSS SOFTWARE	88.80	EUR	353	5.3	4.7	19.0	16.6	20.1	17.5	32.4	28.7	1.5%	1.7%
CAPGEMINI	106.75	EUR	17,947	1.5	1.3	10.3	9.2	12.3	11.0	17.9	16.2	1.7%	1.8%
COMPUTACENTER	12.26	GBP	1,399	0.3	0.3	9.7	8.9	12.2	11.1	17.9	16.9	2.1%	2.2%
DESCARTES SYSTEMS	38.05	CAD	2,919	8.2	7.3	23.7	20.2	45.0	35.6	61.2	48.2		
DEVOTEAM	84.50	EUR	674	1.0	0.9	9.0	7.6	9.8	8.0	22.4	18.9	1.3%	1.5%
MANHATTAN ASSOCIATE	43.29	USD	2,893	4.8	4.7	18.7	20.1	19.9	21.5	28.7	31.8		
ORACLE	45.96	USD	187,623	4.3	4.3	9.0	9.1	9.5	9.6	13.7	12.7	1.6%	1.7%
REPLY	51.20	EUR	1,915	1.8	1.6	12.8	10.9	14.2	12.0	21.5	18.6	0.8%	0.9%
SAP	90.33	EUR	107,800	4.6	4.2	14.4	12.7	15.7	13.9	21.0	18.8	1.6%	1.8%
SOPRA GROUP	171.50	EUR	3,467	1.0	0.9	10.0	8.8	11.5	9.8	16.0	13.9	1.6%	1.7%
SQS SOFTWARE		EUR											
<b>Median</b>				<b>2.6</b>	<b>2.9</b>	<b>12.8</b>	<b>10.1</b>	<b>14.2</b>	<b>11.5</b>	<b>21.5</b>	<b>18.8</b>	<b>1.6%</b>	<b>1.7%</b>

Source: Intermonte SIM estimates for covered companies, FactSet consensus estimates for peer group

**TXT E-SOLUTIONS - Estimates Comparison with Consensus**

(Eu mn)	2018			2019		
	Intermonte	Consensus	%diff	Intermonte	Consensus	%diff
<b>Revenues</b>	39.0	39.2	-0.6%	42.6	42.1	1.3%
<b>Ebitda</b>	4.1	3.8	7.9%	5.0	4.8	4.4%
<b>Net Profit</b>	1.8	1.7	9.1%	2.5	2.4	7.9%
<b>EPS</b>	0.153	0.170	-9.7%	0.217	0.230	-5.8%
<b>Net Debt</b>	75.8	76.5	-0.9%	76.2	77.8	-2.1%

Source: Intermonte SIM estimates and Factset consensus estimates

**DETAILS ON STOCKS RECOMMENDATION**

Stock NAME	TXT E-SOLUTIONS		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	13.40	Previous Target (Eu):	11.50
Current Price (Eu):	12.52	Previous Price (Eu):	9.57
Date of report:	27/04/2018	Date of last report:	21/11/2017

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- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

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NEUTRAL:	37,18 %
UNDERPERFORM	05,13 %
SELL:	00,00 %

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NEUTRAL:	35,19 %
UNDERPERFORM	00,00 %
SELL:	00,00 %

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Emittente	%	Long/Short
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IKF	0,57	SHORT
OLIDATA	0,88	SHORT
WASTE ITALIA	0,61	SHORT

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